1. GENERAL

Magician Industries (Holdings) Limited ("the Company") is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on the Stock Exchange of Hong Kong Limited (the "Stock Exchange").

2. PRINCIPAL ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Statements of Standard Accounting Practice ("SSAPs") and Interpretations issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. A summary of the principal accounting policies adopted by the Group is set out below.

Basis of preparation

The measurement basis used in the preparation of the financial statements is historical cost modified by the revaluation of investment properties as explained in the accounting policies set out below.

At the balance sheet date, the current liabilities of the Group, which included a short-term secured bank loan of HK$50,000,000 falling due on 20th May, 2004, exceeded its current assets by approximately HK$29,998,000. Management has taken steps to improve the Group's financial position, including obtaining continuing support from its bankers. Subsequent to the balance sheet date, management has successfully obtained a renewal of the abovementioned short-term bank loan.

In the opinion of the directors, the Group will have sufficient liquid funds to finance its operations and, accordingly, consider that it is appropriate to prepare the financial statements on a going concern basis.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries ("the Group") made up to 31st March, 2004.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective dates of acquisition or up to the effective dates of disposal, as appropriate.

All transactions and balances within the Group are eliminated on consolidation.

Subsidiaries

A subsidiary is an enterprise, in which the Company, directly or indirectly, holds more than half of the voting power or issued share capital, or controls the composition of the board of directors or equivalent governing body. Investments in subsidiaries are stated at cost less accumulated impairment losses. The carrying amount of the investment is reduced to its recoverable amount on an individual basis.

Associates

An associate is an enterprise, in which the Group has significant influence and which is neither a subsidiary nor a joint venture of the Group. The consolidated income statement includes the Group's share of the results of the associates for the year, and the consolidated balance sheet includes the Group's share of net assets of the associates.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Major costs incurred in restoring assets to their normal working conditions are charged to the income statements. Improvement are capitalised and depreciated over their expected useful lives.

Construction-in-progress is stated at cost less accumulated impairment losses. Cost includes all construction expenditure and other direct costs, including interest costs, attributable to such projects. Costs on completed construction works are transferred to the appropriate asset category. No depreciation is provided in respect of construction-in-progress until it is completed and ready for their intended use.

The gain or loss arising from the retirement or disposal of property, plant and equipment is determined as the difference between the estimated net sales proceeds and the carrying amount of the assets and is recognised as an income or expense in the income statement.

Depreciation is provided to write off the cost less accumulated impairment losses of property, plant and equipment over their estimated useful lives from the date on which they become fully operational and after taking into account their estimated residual values, using the straight-line method at the following rates per annum:

Leasehold land	Over the unexpired term of lease
Buildings	2% or the terms of the leases, if shorter
Leasehold improvements	14.3% – 20%
Plant and machinery	20%
Furniture, fixtures, office and computer equipment	20%
Motor vehicles	20% – 25%
Moulds	20%

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the terms of the leases.

Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties with an unexpired lease term of over 20 years are not depreciated and are stated at their open market values on the basis of professional valuations. Changes in the values of investment properties are dealt with as movements in the investment property revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on a portfolio basis, the excess of the deficit is charged to the income statement.

Upon the disposal of an investment property, the relevant portion of the investment property revaluation reserve realised in respect of previous valuations will be credited to the income statement.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises all costs of purchase, direct labour and an appropriate proportion of all production overhead expenditure in bringing the inventories to their present location and condition, is calculated using the weighted average cost method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated cost of completion and the estimated costs necessary to make the sale.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue and costs, if applicable, can be measured reliably, and on the following bases:

Sale of goods is recognised on transfer of risks and rewards of ownership, which generally coincides with the time when goods are delivered and title has passed.

Interest income is accrued on a time proportion basis on the principal outstanding and at the interest rate applicable.

Rental income is recognised in the period in which the properties are let out and on a straight-line basis over the lease terms.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognised as assets at the lower of the fair value of the leased asset and the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the income statement over the term of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

Rental payable under operating leases are recognised as an expense on the straight-line basis over the lease terms.

Impairment loss

At each balance sheet date, the Group reviews internal and external sources of information to determine whether the carrying amounts of its tangible assets and investment in subsidiaries and associates have suffered an impairment loss or impairment loss previously recognised no longer exists or may be reduced. If any such indication exists, the recoverable amount of the asset is estimated, based on the higher of its net selling price and value in use, in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the smallest group of assets that generates cash flows independently (i.e. a cash-generating unit).

If the recoverable amount of an asset or a cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

Impairment loss (Continued)

A reversal of impairment losses is limited to the carrying amount of the asset or cash-generating unit that would have been determined had no impairment loss been recognised in prior years. Reversal of impairment losses is recognised as income immediately.

Taxation

In the current year, the Group has adopted the revised SSAP 12 "Income Taxes". In accordance with the revised SSAP 12, the charge for current income tax is based on the results for the year as adjusted for items that are non-assessable or disallowed. It is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is provided using the liability method, on all temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The deferred tax liabilities or assets are measured at the tax rates that are expected to apply to the period when the asset is recovered or liability is settled, based on the tax rates and the tax laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, tax losses and credits can be utilised.

In prior years, deferred taxation was accounted for at the current tax rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the financial statements to the extent that a liability was expected to be payable in the foreseeable future. Deferred tax assets were not recognised unless their realisation was assured beyond reasonable doubt.

The adoption of revised SSAP 12 represents a change in accounting policy, which has been applied retrospectively but has no material effects on these financial statements. The comparatives have been restated to conform to the changed policy.

Foreign currencies

Transactions in foreign currencies are translated at the approximate rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated at the approximate rates of exchange ruling at that date. Translation differences are included in the income statement.

On consolidation, the balance sheet of overseas subsidiaries denominated in currencies other than Hong Kong dollars is translated at the approximate rates of exchange ruling at the balance sheet date while the income statement is translated at average rates for the year. All exchange differences arising on consolidation are dealt with in the translation reserve.

Cash equivalents

For the purpose of consolidated cash flow statement, cash equivalents represent short-term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of change in value, net of bank overdrafts.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

Contributions to defined contribution plans

The Group operates a defined contribution plan for the Hong Kong employees based on local laws and regulations. The plan covers all eligible employees. The Group's contributions to the defined contribution plan are expensed as incurred.

Pursuant to the law and regulations of Mainland China, contributions to the defined contribution retirement schemes for the Group's local staff are made to the relevant government authorities in Mainland China, which are calculated based on certain percentages of the applicable payroll costs as stipulated under the requirements in Mainland China. These contributions are expensed as incurred.

3. TURNOVER AND REVENUES

The Company is an investment holding company. Its subsidiaries are principally engaged in manufacturing and trading of household products.

Turnover and revenues recognised by category are analysed as follows:

	Group	
	2004	2003
	HK$'000	HK$'000
Turnover		
Sale of goods	**470,812**	523,399
Other revenues		
Rental income	**439**	444
Interest income	**760**	1,191
Others	**1,106**	1,197
	2,305	2,832
Revenues	**473,117**	526,231

4. SEGMENT INFORMATION

In accordance with the Group's internal financial reporting, the Group has determined that geographical segments are its primary reporting format and no business segment information is presented as over 90% of the turnover and contribution to the Group's results are attributable to the manufacturing and trading of household products.

An analysis of the Group's turnover and results for the year by location of customers is as follows:

	Turnover		Segment results	
	2004	2003	**2004**	2003
	HK$'000	HK$'000	**HK$'000**	HK$'000
United States of America	**242,825**	313,742	**30,911**	63,056
Canada	**35,061**	36,380	**3,508**	5,354
Hong Kong	**55,137**	39,432	**13,347**	9,676
Mainland China	**81,170**	91,558	**(8,373)**	763
Europe	**33,326**	23,817	**3,764**	3,323
Others	**23,293**	18,470	**3,170**	3,780
	470,812	523,399	**46,327**	85,952
Unallocated corporate expenses			**(37,934)**	(52,711)
Profit from operations			**8,393**	33,241
Finance costs			**(6,971)**	(7,069)
Share of loss of an associate			**(233)**	(320)
Taxation			**116**	(7,738)
Profit attributable to shareholders			**1,305**	18,114

No analysis of the segment assets, liabilities and capital expenditure information by geographical location is presented as over 90% of the Group's assets are located in Mainland China.

5. FINANCE COSTS

	Group	
	2004	2003
	HK$'000	HK$'000
Interest on:		
Bank borrowings wholly repayable within five years	3,958	4,140
Convertible bonds	1,377	2,285
Obligations under finance leases	1,636	644
	6,971	7,069

6. PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION

	Group	
	2004	2003
	HK$'000	HK$'000
This is stated after charging (crediting):		
Auditors' remuneration	590	800
Deficit on revaluation of investment properties	–	2,014
Depreciation	35,049	37,619
Loss on disposal of plant and equipment	765	1,824
Operating lease rentals of land and buildings	6,526	6,121
Provision for (Write-back of) bad and doubtful debts	258	(427)
Provision for (Write-back of) inventory obsolescence	2,024	(7,403)
Staff costs (excluding directors' emoluments):		
Wages and salaries	67,297	72,830
Termination benefits	919	2,586
Contributions to retirement schemes	1,170	4,318
	69,386	79,734
Rental income, net of outgoings	(439)	(444)
Write-back of provision for impairment in value of an associate	(464)	(294)

7. DIRECTORS' EMOLUMENTS

Directors' emoluments disclosed pursuant to the Rules Governing the Listing of Securities on the Stock Exchange issued by the Stock Exchange and Section 161 of the Hong Kong Companies Ordinance is as follows:

	Group	
	2004	2003
	HK$'000	HK$'000
Fees:		
Non-executive directors	**140**	140
Independent non-executive directors	**577**	580
	717	720
Other emoluments:		
Executive directors:		
Salaries, other emoluments and other benefits in kind	**3,250**	2,950
Contributions to pension scheme	**24**	24
	3,274	2,974
	3,991	3,694

The emoluments of the directors analysed by the number of directors and emolument ranges are as follows:

	Group Number of directors	
	2004	2003
Nil to HK$1,000,000	**5**	6
HK$1,000,001 to HK$1,500,000	**1**	2
HK$1,500,001 to HK$2,000,000	**1**	–
	7	8

There were no arrangements under which a director waived or agreed to waive any remuneration during the year.

8. FIVE HIGHEST PAID INDIVIDUALS' EMOLUMENTS

Of the five highest paid individuals in the Group, two (2003: two) are directors of the Company whose emoluments are included in note 7 above. The emoluments payable to the remaining three (2003: three) highest paid individuals are as follows:

	Group	
	2004	2003
	HK$'000	HK$'000
Salaries and other benefits	**3,583**	2,895
Contributions to pension scheme	**32**	24
	3,615	2,919

The emoluments fell with in the following bands:

	Group Number of individuals	
	2004	2003
Nil to HK$1,000,000	**2**	2
HK$1,000,001 to HK$1,500,000	**–**	1
HK$1,500,001 to HK$2,000,000	**1**	–
	3	3

9. TAXATION

Company and subsidiaries:	Group 2004 HK$'000	Group 2003 HK$'000
Current tax		
Hong Kong profits tax:		
Current year provision	–	9,620
PRC enterprise income tax:		
Current year provision	297	546
Deferred taxation		
Reversal of temporary difference	(413)	(2,428)
Tax (income) expense for the year	(116)	7,738

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 16%) on the estimated assessable profit for the year.

In previous year, the Hong Kong Inland Revenue Department had issued notices of assessments or additional assessments to a number of the companies within the Group and challenged certain intercompany charges and profit allocations within the Group for Hong Kong profits tax purposes. The Group has filed objections to these assessments. Depending on the outcome of the final assessments, the Group may be subject to additional tax. In this connection, management believes that the Group has made adequate provision for the potential additional tax liabilities.

PRC enterprise income tax has been provided at 15% on the estimated assessable profits generated by the PRC subsidiary. The PRC subsidiary was exempted from PRC state income tax and local income tax for two years starting from its first profit-making year of operation and after offsetting prior year losses, followed by a 50% relief for the following three years.

9. TAXATION (Continued)

Reconciliation of tax (income) expense

	Group	
	2004	2003
	HK$'000	HK$'000
Profit from ordinary activities before tax	**1,189**	25,852
Income tax at applicable tax rate of 17.5% (2003: 16%)	**208**	4,136
Non-deductible expenses	**1,353**	628
Unrecognised tax losses	**–**	(236)
Utilisation of previously unrecognised tax losses	**(661)**	(952)
Unrecognised temporary differences	**(1,232)**	(1,419)
Recognition of previously unrecognised temporary differences	**–**	(2,191)
Others	**216**	545
Underprovision in prior year	**–**	7,227
Tax (income) expense for the year	**(116)**	7,738

10. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

Of the Group's profit for the year of HK$1,305,000 (2003:HK$18,114,000), a profit of HK$18,030,000 (2003: HK$413,000) has been dealt with in the financial statements of the Company.

11. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to shareholders for the year of HK$1,305,000 (2003: HK$18,114,000), and the weighted average number of 868,733,440 (2003: 868,733,440) ordinary shares in issue during the year.

The diluted earnings per share for both years has not been presented as the conversion price of the Company's outstanding convertible bonds was higher than the average market price of the Company's shares.

12. FIXED ASSETS

Group	Investment properties HK$'000	Leasehold land and buildings HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Furniture, fixtures, office and computer equipment HK$'000	Motor vehicles HK$'000	Moulds HK$'000	Construction-in-progress HK$'000	Total HK$'000
Cost or valuation									
At beginning of year	1,600	328,501	22,940	106,420	32,222	12,980	144,411	259	649,333
Acquisition of a subsidiary	–	–	–	1,900	–	–	–	–	1,900
Additions	–	176	257	3,835	1,188	697	28,139	17,710	52,002
Disposals	–	–	(52)	(1,434)	(267)	(1,881)	(1,286)	–	(4,920)
Transfer from construction-in-progress	–	1,495	795	2,994	–	–	–	(5,284)	–
At balance sheet date	**1,600**	**330,172**	**23,940**	**113,715**	**33,143**	**11,796**	**171,264**	**12,685**	**698,315**
Accumulated depreciation									
At beginning of year	–	35,100	16,129	83,681	26,315	12,013	107,758	–	280,996
Charge for the year	–	6,818	2,959	6,892	2,444	498	15,438	–	35,049
Disposals	–	–	(40)	(959)	(247)	(1,861)	(793)	–	(3,900)
At balance sheet date	**–**	**41,918**	**19,048**	**89,614**	**28,512**	**10,650**	**122,403**	**–**	**312,145**
Net book value									
At balance sheet date	**1,600**	**288,254**	**4,892**	**24,101**	**4,631**	**1,146**	**48,861**	**12,685**	**386,170**
At beginning of year	1,600	293,401	6,811	22,739	5,907	967	36,653	259	368,337

The analysis of the cost or valuation at balance sheet date of the above assets is as follows:

	Investment properties HK$'000	Leasehold land and buildings HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Furniture, fixtures, office and computer equipment HK$'000	Motor vehicles HK$'000	Moulds HK$'000	Construction-in-progress HK$'000	Total HK$'000
At cost	–	330,172	23,940	113,715	33,143	11,796	171,264	12,685	696,715
At valuation	1,600	–	–	–	–	–	–	–	1,600
At balance sheet date	**1,600**	**330,172**	**23,940**	**113,715**	**33,143**	**11,796**	**171,264**	**12,685**	**698,315**

12. FIXED ASSETS (Continued)

Investment properties were revalued at 28th February, 2003 on the basis of their open market value by C S Surveyors Limited, an independent qualified valuer. Directors of the Company consider that the market value of the investment properties as at the balance sheet date does not materially different from their carrying value.

The net book value of investment properties and leasehold land and buildings held by the Group at the balance sheet date comprised:

	Group	
	2004	2003
	HK$'000	HK$'000
Medium-term leases:		
Hong Kong	**26,040**	26,548
Mainland China	**263,814**	268,453
	289,854	295,001

The Group's construction-in-progress is situated in Mainland China under medium-term leases.

The net book value of the Group's fixed assets includes an amount of HK$18,039,000 (2003: HK$8,037,000) in respect of assets held under finance leases.

13. INTERESTS IN SUBSIDIARIES AND DUE FROM (TO) SUBSIDIARIES

	Company 2004 HK$'000	Company 2003 HK$'000
Non-current		
Interests in subsidiaries		
Unlisted shares, at cost	**158,598**	158,598
Less: Provision for impairment in value	**(157,877)**	(157,877)
	721	721
Due from subsidiaries	**521,250**	518,436
Provision for doubtful debts	**(118,031)**	(136,036)
	403,219	382,400
	403,940	383,121
Due to subsidiaries	**(150,984)**	(48,253)
Current		
Due from subsidiaries	**17,225**	38,430
Due to a subsidiary	**(10,298)**	(14,612)

Details of the Company's principal subsidiaries at the balance sheet date are as follows:

Name of subsidiary	Place of incorporation/ registration	Nominal value of issued ordinary share/ registered capital	Percentage of equity interest attributable to the Company Directly	Percentage of equity interest attributable to the Company Indirectly	Principal activities
Magician Investments (BVI) Limited	British Virgin Islands	US$6 ordinary	100%	–	Investment holding
Treasure Trend Development Limited	British Virgin Islands	US$1 ordinary	100%	–	Investment holding
Diyon Development Limited	Hong Kong	HK$3 ordinary	–	100%	Purchasing of paper, plastic and metal materials and products

13. INTERESTS IN SUBSIDIARIES AND DUE FROM (TO) SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation/ registration	Nominal value of issued ordinary share/ registered capital	Percentage of equity interest attributable to the Company		Principal activities
			Directly	Indirectly	
Magicgrand Development Limited	British Virgin Islands	US$1 ordinary	–	100%	Manufacturing and trading of plastic and metal products
Magician Industrial Company Limited	Hong Kong	HK$5 ordinary	–	100%	Marketing and trading of plastic and metal products
Jinda Plastic Metal Products (Shenzhen) Co., Ltd.	Mainland China	HK$180,000,000 registered capital	–	100%	Manufacturing and trading of plastic and metal products
More Concept Limited	Hong Kong	HK$3 ordinary	–	100%	Marketing and trading of plastic and metal products
Nicole (China) Company Limited	Hong Kong	HK$2 ordinary	–	100%	Marketing and trading of plastic and metal products
Grandmate Industrial Company Limited	Hong Kong	HK$251,000 ordinary	–	100%	Marketing and trading of plastic and metal products
Hopeward Holdings Limited	British Virgin Islands	US$1 ordinary	–	100%	Property holding
Falton Investment Limited	Hong Kong	HK$2 ordinary	–	100%	Property holding

All of the above subsidiaries operate principally in Hong Kong except for Magicgrand Development Limited and Jinda Plastic Metal Products (Shenzhen) Co., Ltd. which operate principally in Mainland China.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results of the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

The balances with subsidiaries are unsecured, interest-free and have no fixed terms of repayments, except for the amounts due from/to subsidiaries arising from general working capital transactions, which are classified as current assets and current liabilities.

14. INTEREST IN AN ASSOCIATE

	Group	
	2004	2003
	HK$'000	HK$'000
Share of net assets	**873**	1,106
Due from an associate	**471**	524
	1,344	1,630
Less: Provision for impairment in value	**–**	(464)
	1,344	1,166

The amount due from the associate is unsecured, interest-bearing at 4% per annum and has no fixed repayment terms.

The Group holds 40% of the issued share capital of Techable Industrial Limited, a company that is incorporated in Hong Kong and engaged in the manufacturing and trading of metal products in Hong Kong.

15. INVENTORIES

	Group	
	2004	2003
	HK$'000	HK$'000
Raw materials	**23,621**	27,774
Work-in-progress	**21,283**	17,824
Finished goods	**37,623**	40,326
	82,527	85,924

The amount of inventories, included in above and excluding those fully provided for with nil carrying value, carried at net realisable value is HK$5,240,000 (2003: HK$2,766,000).

16. TRADE AND BILLS RECEIVABLES

The Group in general allows a credit period of 30 to 60 days to its trade customers. An ageing analysis of the Group's trade and bills receivables (net of provision for bad and doubtful debts) is set out below:

	Group	
	2004	2003
	HK$'000	HK$'000
Less than 1 month	**39,565**	40,497
1 month to 2 months	**23,096**	25,134
2 months to 3 months	**9,546**	14,950
3 months to 6 months	**15,787**	12,081
6 months to 1 year	**4,971**	2,936
	92,965	95,598

17. TRADE PAYABLES

An ageing analysis of trade payables is set out below:

	Group	
	2004	2003
	HK$'000	HK$'000
Less than 3 months	**50,212**	52,678
3 months to 6 months	**22,084**	7,396
6 months to 1 year	**12,005**	793
More than 1 year	**560**	977
	84,861	61,844

18. BANK BORROWINGS

The long-term bank borrowings are repayable within a period as follows:

	Group		Company	
	2004	2003	**2004**	2003
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within one year	**15,000**	22,000	**–**	22,000
After one year but within two years	**15,000**	22,000	**–**	22,000
After two years but within five years	**62,500**	21,641	**–**	21,641
	77,500	43,641	**–**	43,641
	92,500	65,641	**–**	65,641

In November 2000, the Group entered into a Debt Restructuring Deed (the "DRD") with eighteen bankers (the "Bank Group") of the Group to restructure the outstanding bank indebtedness of the Group.

As a result of the debt restructuring, (i) a debt compromise arrangement was made to settle a certain amount of the debt; (ii) a significant portion of the outstanding debts of the Group was dealt with through the issuance of convertible bonds; and (iii) the balance of approximately HK$110 million was dealt with through a long-term loan with interest at the 3-month Hong Kong Inter-bank Offer Rate plus 1% per annum. The principal of the long-term loan is repayable every six months at HK$11 million with the final payment on 17th December, 2005.

On 4th November, 2003, the Group entered into a deed (the "2003 Deed") pursuant to which the Group would prepaid (i) the principal amount outstanding under the convertible bonds (which was included in non-current liabilities in the 2003 financial statements); (ii) the principal amount outstanding under the term loan together with accrued interest up to 6th November, 2003 (the "Discharge Date"); (iii) the success fee of HK$2,836,000 (which was included in non-current liabilities in the 2003 financial statements), and (iv) all related costs and expenses payable by the Company pursuant to the DRD.

On 6th November, 2003, the Group repaid the entire amount as mentioned in the 2003 Deed. Accordingly, the obligations of the Group under the DRD was discharged and the security provided to Bank Group under the DRD was released.

Repayment under the 2003 Deed was partially financed by borrowings from a bank in Mainland China amounting to HK$100 million (the "PRC Bank Loan"). The PRC Bank Loan bears interest at the 6-month HIBOR plus 150 points per annum and is repayable by every six months at HK$7.5 million up to September 2006, with the final payment of HK$55 million to be due for settlement on 20th September, 2006. The first repayment of HK$7.5 million had been duly settled in March 2004. The Company has provided corporate guarantee to the bank in respect of the PRC Bank Loan.

19. OBLIGATIONS UNDER FINANCE LEASES

Minimum lease payments

	Group		Company	
	2004	2003	**2004**	2003
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within one year	**7,558**	4,726	**3,869**	4,612
In the second to fifth years inclusive	**7,609**	556	**831**	471
	15,167	5,282	**4,700**	5,083
Future finance charges	**(1,771)**	(232)	**(202)**	(217)
Present value of lease obligations	**13,396**	5,050	**4,498**	4,866

Present value of minimum lease payments

	Group		Company	
	2004	2003	**2004**	2003
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within one year	**6,478**	4,501	**3,686**	4,399
In the second to fifth years inclusive	**6,918**	549	**812**	467
	13,396	5,050	**4,498**	4,866

The lease terms are ranged from two to four years. All lease agreements are on a fixed repayment basis and no arrangements for contingent rental payments.

20. DEFERRED TAXATION

At the balance sheet date, the Group has recognised deferred tax assets of HK$285,000 (2003: deferred tax liabilities of HK$127,000) in respect of the accelerated depreciation allowances.

Deferred tax assets have not been recognised in respect of the tax losses of approximately HK$29,011,000 (2003: HK$27,047,000). The tax losses do not expire under the current tax legislation.

21. ISSUED CAPITAL

	Company 2004 HK$'000	Company 2003 HK$'000
Authorised:		
4,000,000,000 (2003: 4,000,000,000) ordinary shares of HK$0.10 each	**400,000**	400,000
Issued and fully paid:		
868,733,440 (2003: 868,733,440) ordinary shares of HK$0.10 each	**86,873**	86,873

22. SHARE OPTION SCHEME

On 8th August, 2002, a share option scheme was approved by the shareholders of the Company, under which the directors of the Company may, at their discretion, invite any full-time employee or directors of the Company or its subsidiaries to take up options at a nominal consideration of HK$1 for each option allotment to subscribe for ordinary shares in the Company, subject to a maximum of 10% of the nominal value of the issued share capital of the Company from time to time. Each option is entitled to subscribe for one ordinary share of the Company and the subscription price is determined by the board of directors and shall be:

(1) the closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheets on the date of offer; and

(2) the average of closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of offer,

whichever is higher provided that it shall not be lower than the nominal value of the Company's shares. Options are exercisable in stages as determined by the board of directors from time to time at the date of grant.

No share options have ever been granted by the Company under the share option scheme since adoption.

23. RESERVES

Group	Share premium HK$'000	Capital redemption reserve HK$'000	Translation reserve HK$'000	Contributed surplus HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1st April, 2002	282,049	1,265	139	51	(116,413)	167,091
Net profit for the year	–	–	–	–	18,114	18,114
At 31st March, 2003	282,049	1,265	139	51	(98,299)	185,205
The Company and subsidiaries	282,049	1,265	139	51	(99,040)	184,464
An associate	–	–	–	–	741	741
At 31st March, 2003	282,049	1,265	139	51	(98,299)	185,205
At 1st April, 2003	**282,049**	**1,265**	**139**	**51**	**(98,299)**	**185,205**
Net profit for the year	**–**	**–**	**–**	**–**	**1,305**	**1,305**
At 31st March, 2004	**282,049**	**1,265**	**139**	**51**	**(96,994)**	**186,510**
The Company and subsidiaries	**282,049**	**1,265**	**139**	**51**	**(97,502)**	**186,002**
An associate	**–**	**–**	**–**	**–**	**508**	**508**
At 31st March, 2004	**282,049**	**1,265**	**139**	**51**	**(96,994)**	**186,510**

Company	Share premium HK$'000	Capital redemption reserve HK$'000	Contributed surplus HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1st April, 2002	282,049	1,265	158,398	(291,978)	149,734
Net profit for the year	–	–	–	413	413
At 31st March, 2003	282,049	1,265	158,398	(291,565)	150,147
Net profit for the year	–	–	–	18,030	18,030
At 31st March, 2004	**282,049**	**1,265**	**158,398**	**(273,535)**	**168,177**

The laws and regulations of Mainland China require wholly foreign-owned enterprises in Mainland China ("WFOE") to provide for certain statutory reserves namely general reserve, enterprise expansion fund and staff welfare and bonus fund which are appropriated from net profit as reported in the statutory accounts.

23. RESERVES (Continued)

The Group's subsidiary in Mainland China, which is a WFOE, is required to allocate at least 10% of its after-tax profit to the general reserve until the reserve has reached 50% of its registered capital. The general reserve can only be used, upon approval by the relevant authority, to offset accumulated losses or increase capital. The enterprise expansion fund can only be used to increase capital upon approval by the relevant authority. The staff welfare and bonus fund can only be used for the welfare of the employees of the subsidiary in Mainland China. Appropriation to the enterprise expansion fund and staff welfare and bonus fund is at the discretion of the board of directors of the subsidiary in Mainland China.

The contributed surplus of the Group represents the difference between the nominal value of the aggregate share capital of the subsidiaries at the date on which they were acquired by the Group and the nominal value of the Company's shares issued as consideration for the acquisition as the date of the Group reorganisation in 1995.

Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus of the Company is available for distribution. However, the Company cannot declare or pay a dividend or make a distribution out of the contributed surplus, if:

(a) it is, or would after the payment be, unable to pay its liabilities as they become due; or

(b) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium account.

24. CASH GENERATED FROM OPERATIONS

	Group	
	2004	2003
	HK$'000	HK$'000
Profit from ordinary activities before taxation	1,189	25,852
Depreciation	35,049	37,619
Loss on disposal of plant and equipment	765	1,824
Deficit on revaluation of investment properties	–	2,014
Provision for (Write-back of) bad and doubtful debts	258	(427)
Provision for (Write-back of) inventory obsolescence	2,024	(7,403)
Write-back of provision for impairment in value of an associate	(464)	(294)
Interest income	(760)	(1,191)
Interest expense	6,971	7,069
Share of loss of an associate	233	320
Changes in working capital:		
Trade and bills receivables, prepayments, deposits and other receivables	4,682	(22,845)
Inventories	1,373	(25,885)
Due from an associate	53	294
Trade payables, other payables and accruals	10,622	41,886
Cash generated from operations	61,995	58,833

25. MAJOR NON-CASH TRANSACTION

During the year, the Group entered into finance lease arrangements in respect of assets with a total capital value at the inception of the leases of approximately of HK$6,388,000 (2003: HK$9,178,000).

26. ACQUISITION OF A SUBSIDIARY

	Group	
	2004 HK$'000	2003 HK$'000
Net assets acquired and total consideration:		
Plant and equipment	1,900	–
Satisfied by:		
Cash paid	1,320	–
Payable for acquisition of a subsidiary	580	–
Cash consideration	1,900	–

Analysis of outflow of cash and cash equivalents in respect of acquisition of a subsidiary:

	Group	
	2004 HK$'000	2003 HK$'000
Cash paid	(1,320)	–

The subsidiary acquired during the year did not have significant contribution to the Group's turnover, results and cash flows for the year.

27. PENSION RETIREMENT OBLIGATIONS

The Group has arranged for its Hong Kong employees to join the Mandatory Provident Fund Scheme (the "MPF Scheme"). The assets of the MPF Scheme are held separately in provident fund managed by independent trustee. Under the MPF Scheme, the Group and each of the employees make monthly contributions to the scheme at 5% of the employees' earnings as defined under the Mandatory Provident Fund legislation. Both the employer's and the employees' contributions are subject to a cap of monthly earnings of HK$20,000.

The Group's subsidiary in Mainland China also participated in defined contribution retirement schemes covering its full-time Mainland China employees. The schemes are administered by the relevant government authorities undertake to assume the retirement benefit obligations of all existing and future retired employees of the Group's Mainland China subsidiary.

During the year, the amount of employer's contributions made by the Group to the defined contribution plans was approximately HK$1,170,000 (2003: HK$4,318,000).

28. PLEDGE OF ASSETS

At the balance sheet date, certain assets of the Group with the following carrying values were pledged to secure general banking facilities granted to the Group:

	Group	
	2004	2003
	HK$'000	HK$'000
Leasehold land and buildings	**236,224**	293,401
Investment properties	**1,600**	1,600
Other properties, plant and equipments	**–**	73,336
Bank deposits	**7,525**	40,923
	245,349	409,260

29. CONTINGENT LIABILITIES

At the balance sheet date, the Company had contingent liabilities not provided for in the financial statements in respect of guarantee of HK$135,000,000 (2003: HK$40,000,000) for banking facilities granted to subsidiaries, which were utilised by subsidiaries to the extent of approximately HK$119,031,000 (2003: HK$26,995,000).

30. COMMITMENTS

(a) Capital expenditure commitments

	Group	
	2004	2003
	HK$'000	HK$'000
Contracted but not provided for, net of deposits paid	**13,047**	6,730

(b) Commitments under operating leases

At the balance sheet date, the Group had total future minimum lease payments under non-cancellable operating leases, which are payable as follows:

	Group	
	2004	2003
	HK$'000	HK$'000
Within one year	**3,251**	3,491
In the second to fifth years inclusive	**1,156**	2,838
	4,407	6,329